

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
NOVEMBER 28, 2018**

ITEM 3

SUBJECT

CONSIDERATION OF A PROPOSED RESOLUTION TO MODIFY THE TERMS OF THE DRINKING WATER STATE REVOLVING FUND (DWSRF) PROGRAM FINANCING FOR SHASTA COMMUNITY SERVICES DISTRICT (DISTRICT); WATER TREATMENT PLANT IMPROVEMENT PROJECT (PROJECT); DWSRF PROJECT NO. 4510013-003C; FINANCING AGREEMENT NO. SRF08CX102

DISCUSSION

Shasta is a small disadvantaged community located in Shasta County, approximately 2 miles west of the City of Redding. The District provides water to approximately 2,500 residents in Shasta through 772 service connections. The District's 11.5 square mile service area consists of mountainous terrain with elevations ranging from 700 feet to 1,700 feet.

On August 21, 2008, the California Department of Public Health executed construction financing agreement No. SRF08CX102 for the Project, with the District receiving \$2,031,111, at an interest rate of 2.2923 percent and a 20-year term. The Project made major improvements to the District's existing water treatment plant including the construction of a 1,400 gallon per minute pump station, a 0.4 million-gallon (MG) capacity storage tank, and a 0.12 MG capacity steel backwash containment tank. On November 12, 2009, the District completed construction of the Project with the final financing amount of \$1,933,996.45. The District made timely and full semi-annual payments following completion of the Project through July 2018.

On July 23, 2018, the Carr Fire ignited, burning 229,651 acres (359 square miles) in Shasta and Trinity Counties before it was fully contained on August 30, 2018. The Carr Fire destroyed 1,604 structures (including 1,079 residences), killed eight people, and is reported as the 7th largest California wildfire since accurate records began in 1932. The District was directly and severely impacted by the fire. Of the District's 775 service connections, an estimated 325 connections (42%) remain intact. The District's main office, which housed the District's financial records and files, was also destroyed in the fire.

In mid-August 2018, the District informed Division of Financial Assistance (Division) staff of the extent of the damage and indicated that they may not have sufficient funds to make their next scheduled payment, due January 1, 2019. The District later requested a modification to its financing agreement to help make repaying the remaining loan balance affordable for the community.

On September 20, 2018, Division staff conducted an inspection of the Project facilities and determined that the District properly operated and maintained the Project since its completion in 2009. As a result of such ongoing upkeep and maintenance, Division staff evaluated the Project's overall useful life and determined that it should be adjusted from 20 years to 30 years.

The District is in the early stages of assessing the extent of the fire's financial impact. Surveys were mailed out to customers in early September to assess the short-term and long-term impacts to property owners. The District is in the process of gathering and reviewing survey results from residents, many of which indicate a high level of uncertainty in their future plans to rebuild or relocate.

An income survey conducted by the Rural Community Assistance Corporation in 2014 determined that the median household income (MHI) for the District is \$48,900, approximately 77% of the California statewide MHI. As a community water system serving a small disadvantaged community, the District is eligible to receive DWSRF financing with a 0 percent interest rate and 30-year repayment term.

The Division recommends extending the loan repayment term from 20 years to 30 years and reducing the interest rate from 2.2923 percent to 0 percent for the remainder term of its financing agreement. The Division also recommends a forbearance of loan repayments for 5 years, to provide the District with the opportunity to evaluate the long-term impacts to their operating revenues and expenses.

POLICY ISSUE

Should the State Water Board adopt a resolution authorizing the Deputy Director of the Division to extend the loan repayment term to 30 years, reduce the interest rate to 0 percent for the remaining financing term, and provide a forbearance of loan repayments for 5 years?

FISCAL IMPACT

The District is requesting a modification to the financing terms on their current outstanding DWSRF loan:

DWSRF Loan Balance:	\$1,030,583.54 (as of July 1, 2018)
Annual Payment:	\$121,098
Interest Rate:	2.2923%
Term:	20 years

The District's MHI is \$48,900, approximately 77% of the California statewide MHI, with a population of 2,500. Their current average water rate is \$71.05 (1.74% of MHI).

Service Connections prior to Carr Fire	Service Connections remaining after Carr Fire
775 (100%)	325 (42%)

The District's Cash and Cash Equivalents ending balance for fiscal year (FY) 2015/16 was \$741,784 and is anticipated to be approximately \$869,796 based on their FY 16/17 Profit and Loss statement.

The District has two outstanding long-term debts: One with the State Water Resources Control Board and one with United States Department of Agriculture (USDA). The District submitted requests for loan modifications for both outstanding loans.

New Terms:

DWSRF Loan Balance:	\$1,030,583.54 (as of July 1, 2018)
Term:	30 years (20 years remaining)
Forbearance:	5 years
Loan Repayment:	15 years
Annual Payment:	\$68,706 (semi-annual payments of \$34,353)
Interest Rate:	0% (as of July 2, 2018)

The proposed new terms will reduce the DWSRF interest earnings by approximately \$122,440 for the total life of the loan.

Financial Risk:

The Carr Fire impact to the community and the District is in the beginning data gathering stages. The District continues to gather financial data to assess the impact to their operating revenues and expenses. Until this is complete, the long-term impact to their operating revenues and expenses are unpredictable due to the circumstances.

REGIONAL BOARD IMPACT

None.

HUMAN RIGHT TO WATER ANALYSIS

The proposed modification would affirmatively support human right to water.

STAFF RECOMMENDATION

The State Water Board should adopt a resolution authorizing the Deputy Director of the Division to extend the loan repayment term to 30 years, reduce the interest rate to 0 percent for the remaining financing term, and provide a forbearance of loan repayments for 5 years.

State Water Board action on this item will assist the Water Boards in reaching Goal 6 of the Strategic Plan Update: 2008-2012 to enhance consistency across the Water Boards, on an ongoing basis, to ensure our processes are effective, efficient, and predictable, and to promote fair and equitable application of laws, regulations, policies, and procedures.